113586

U.S. General Accounting Office
Washington, D.C.

FOR RELEASE ON DELIVERY
Wednesday, October 15, 1980

Statement of
H. L. Krieger, Director
Federal Personnel and Compensation Division

Before the

Commission on Executive, Legislative,
and Judicial Salaries

113586

Mr. Chairman and Members of the Commission:

I am pleased to be here today to present the views of the General Accounting Office on the need for pay adjustments for top officials in the Federal Government.

Since our appearance before the last Commission in 1976, we have issued several reports on this issue. Pay adjustments that were to be provided to Members of Congress, Federal judges, and top Federal executives continue to be reduced or completely denied. As a result, they have suffered large losses in purchasing power--from 31 percent at Executive Level V to 43 percent at Level I--since 1969. This has resulted in recruitment and retention problems for some agencies, and, because of the Executive Schedule's link with the General Schedule, it has also resulted in compressed pay rates for employees in GS-16 through 18, as well as the top 6 steps of GS-15. Compression also affects the Senior

012532

Executive Service; nearly all of its members receive the same pay. As a consequence, Federal executives have little incentive to accept promotions with added responsibility but no increase in pay.

Personnel officials at Federal agencies cite low salaries and infrequent adjustments as a major source of their difficulties in recruiting individuals from outside the Government for high-level jobs. Despite extensive advertising, agencies often get fewer than five well-qualified applicants. Many prospective applicants show little interest in job offers because they are already making more money than the Government can pay. The greater the skill and responsibilities of a position, the more difficult it is to fill. For example, during our latest review we found that a hospital director position in the Department of Health and Human Services had not been filled for 7 months because of the $50,112.50 pay ceiling. Sometimes it can take over a year to fill top positions.

Vacant executive positions must sometimes be filled from within an agency by individuals who lack the desired level of experience and expertise. However, many Federal executives are reluctant to accept promotions because the increased responsibilities of the position are not recognized with higher pay. Payless promotions are occurring more often because pay compression results in five or more levels of responsibility making the same salary.

Many Federal executives have chosen to retire rather than to continue working at frozen pay levels. The incentive to retire is intensified by the generous cost-of-living adjustments that retirees receive. In October 1979, top officials' pay was increased by 5.5 percent--their only raise since March 1977--while other Federal employees received a 7 percent raise in 1979 and 9.1 percent this year. Federal retirees received increases totaling 10.8 percent in 1979 and 13.7 percent in 1980. Thus, it is not hard for an employee whose pay has been adjusted infrequently and in smaller amounts than others to realize that he or she is better off retiring as soon as eligible and receiving the cost-of-living increases that are granted to Federal retirees every 6 months.

Among the executives who retired between January 1971 and July 1980, 4,700 receive annuities that are more than their final salaries and 3,900 receive annuities that are higher than the salary ceiling that existed when they retired. There are even over 100 whose annuities exceed the current salary ceiling of $50,112.50.

The number of executive retirements rose drastically from 180 during the last 6 months of 1979 to 320 during the first 3 months of 1980. The Department of Health and Human Services alone lost 16 top executives in the first quarter of 1980 with combined Federal experience of over 500 years. Many of these individuals were division and department heads or regional commissioners. The Federal Aviation Administration lost nine top executives with over 300 years of Federal service. Many of them left shortly after attaining retirement eligibility and accepted higher paying jobs outside the Government.

Responses to a recent Office of Personnel Management (OPM) questionnaire by executives who left the Government from October 1978 to July 1979, highlight the impact of pay problem. Over half the respondents cited concern about continued pay ceilings and lack of regular adjustments as an important reason for their leaving. About 31 percent said the thing they liked least about working for the Government were the financial sacrifices they were forced to make. About 25 percent said they left for higher paying jobs.

Encouraging executives who are eligible to retire to remain in service by increasing their salaries may in fact result in a cost savings to the Government. We have estimated that if an executive stayed an additional 5 years for a 10 to 20 percent pay increase, it could result in a corresponding savings to the Government over the cost of having to immediately replace the executive and pay him an annuity for those 5 years.

Federal judges are less likely than others to resign or retire early, but those that do generally report that their reason for leaving was inadequate compensation. In a recent report on Federal judicial salaries, the American Bar Association noted that the Chief Justice of the Supreme Court commented, "Although every judge I know is prepared to sacrifice income to become a judge, and all of us are doing it, society in its own interest should insist on some reasonable degree of equity, an equity that has been denied to every judge in the Federal system as inflation has been consuming the real value of compensation." The report concluded that it was tragic that the Chief Justice of the United States, in desperation for the continuing quality of the judiciary of the United States, must assume the obligation to make such statements and devote his time and energies to the problem.

CONGRESSIONAL PAY LINK

A major factor causing the pay problem is the informal link between congressional, Executive Level II, and Court of Appeals judges' salaries. This link has adversely affected top executives' and judicial pay when the Congress has held its own pay down. This in turn limits the Level V ceiling on General Schedule pay, thus, compromising legislative mandates for pay comparability and pay distinctions.

We recognize that some of the pay problem results from the present economic conditions and high inflation. However, other countries who are experiencing high inflation have been able to maintain separate pay adjustments for their legislators and top civil servants. England, for example, approved a 12.6 percent average increase for its top civil servants this year as well as a 9.6 percent increase for the members of Parliament. England has a Top Salaries Review Board which meets every 2 years to recommend new pay rates for top level civil servants, top military members, the judiciary, and members of Parliament. In 1975, some members of Parliament requested the Board to link their pay adjustments to those of top civil servants. The Board rejected this request because it believed the job of a member of Parliament was unique and could not be compared with any other job and that a pay linkage could result in holding down civil service pay adjustments.

Canada and West Germany also have separate pay adjustments for members of Parliament and top civil servants because the jobs have different responsibilities.

There are few parallels between the career patterns, career expectations, and responsibilities of Members of Congress, judges, and executives. Therefore, we see no compelling need to continue the link between their salaries and have continually recommended in our reports that the Congress discontinue this practice.

We also believe that regular adjustments are more acceptable to the public than large jumps every 4 years and, therefore, have recommended that the Congress allow annual adjustments to take effect as the law provides.

SENIOR EXECUTIVE SERVICE COULD BE ADVERSELY AFFECTED

The Senior Executive Service, or SES, was created in July 1979 to provide a compensation system designed to attract and retain highly competent executives and also to insure that compensation, retention, and tenure are measured on the basis of individual and organizational performance. However, even before SES had a chance to operate, its compensation system was severely limited by actions of the Congress.

First, although the President established six pay rates for the SES, ranging from $47,889 to $56,500, limitations on fiscal year 1980 appropriations resulted in 90 percent of SES members receiving the same salary--$50,112.50. The recent General Schedule increase raised the lowest SES pay rate so that now virtually all SES members are at the ceiling despite major differences in their responsibilities.

Second, after only a few agencies granted SES bonuses, the Congress reduced the number of career positions that could receive bonuses from 50 percent, as authorized by the Civil Service Reform Act, to 25 percent. Because the Congress was concerned that bonuses might be given to recognize job responsibilities rather than performance, OPM further reduced the number of bonuses that could be given to 20 percent of eligible SES positions.

Limiting performance awards for SES members could seriously affect these employees' morale and stifle the incentive for greater excellence which the Congress was striving to stimulate through the Reform Act's pay-for-performance provisions. Since nearly all Federal executives receive the same salary because of pay compression, few, if any, incentives exist for them to seek positions of greater authority and responsibility.

The limitations on SES compensation will undoubtedly be interpreted as a breach of faith by many executives who have elected to join the SES. Returns from a GAO questionnaire to senior executives indicate a large number of them have strong concerns about the limitation on performance awards and the pay freeze. Many said they had been misled and that, if these limitations continue, both SES and civil service reform would be a "sham."

In order for the SES to be successful and to improve morale and productivity, it must be allowed to operate as intended. Accordingly, we have also urged the Congress to allow SES bonus and rank provisions of the Reform Act to take effect.

EFFECT OF THE EXECUTIVE PAY PROBLEM ON THE GENERAL SCHEDULE

As I mentioned, the October 1980 pay raise extended pay compression down to step 5 of GS-15. Moreover, the top step of GS-14 is less than $1,000 below the ceiling. In the interest of maintaining pay distinctions in keeping with work distinctions, the most equitable solution would of course be sizeable salary adjustments for top Federal officials. However, in view of the lack of success in that direction, other actions have been proposed which should be considered. For example, a bill was introduced in 1978 (H.R. 11774) that would have required pay distinctions throughout all levels of the statutory pay systems even with the salary ceiling. The bill contained no criteria for determining what the pay distinctions should be, but indicated that new pay ceilings would be created for levels below grade GS-18 and its equivalents. Such a move would be unpopular because it would extend the effect of the ceiling and deny full comparability increases to an increasing number of employees. By the same token, it is neither fair nor logical that several levels of Federal employees receive the same salary. This course of action would be a way of re-establishing pay distinctions that follow work and performance distinctions.

Although the ceiling on the General Schedule is not strictly an executive pay matter, the two problems are closely related. Accordingly, you may wish to suggest to the Administration that it consider establishing such pay ceilings in other levels of the General Schedule in conjunction with executive pay increases in the future.

* * * * *

In summary, I would like to say that we have long been concerned over inadequate salary levels, irregular pay adjustments, and distorted pay relationships for top Federal officials. The General Accounting Office has continually pushed for a pay system which would make it easier for the Government to attract and retain top caliber managers, to use their abilities productively, and to pay them according to their contributions.

We are concerned about the loss of top executives to both retirement and private industry. The unrealistically low salary levels, combined with generous cost-of-living adjustments available to Federal retirees, leaves many Federal executives little choice, since in the long run the benefits will be higher if they retire as soon as eligible. This would not occur if executives received adequate salaries.

Executives and other top managers comprise only a small segment of the Federal work force, yet this group is one of the most vital factors for ensuring the successful performance of Government programs. It is virtually impossible to address national priorities and Government costs without recognizing the responsibilities and the effect of these individuals. They are responsible for administering the budget and for managing the programs authorized by the Congress for the benefit of the American public. The potential returns we can all receive from their improved performances are overwhelming.